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The retirement age and the deficit

Closing the deficit: How Much Can Later Retirement Help? Edited by Gary Burtless and Henry J. Aaron, Washington DC, Brookings Institute Press, 2013, 142 pp., \$22.95/paperback.

This five-chapter book consists of essays examining the question of whether increasing the retirement age is the answer to keeping the Social Security system solvent. The text also looks at the kinds of workers who would postpone retirement, how postponing their retirement would affect the federal budget, the type of policy that would encourage postponing retirement, and the types of policies that would be necessary to protect the benefits of those who choose to remain employed.

Editors Gary Burtless and Henry J. Aaron are senior fellows at the Brookings Institute. Burtless starts by analyzing the current employment of older workers. He argues that recent reforms to Social Security, the evolution of pension systems, and skyrocketing health insurance costs already have had the effect of reversing early-retirement trends. This reversal is particularly noticeable among older male workers, whose earnings are typically at peak levels; an interesting and natural side effect is that the changes have led to a simultaneous increase in the overall average hourly wage. Burtless' regression analysis indicates a relationship between higher levels of education and a prolonged career; however, research is still needed to determine the effect that student debt has on the decision to retire. As Burtless points out, it is conceivable that the debt burden of individuals who pursue multiple degrees could be in the hundreds of thousands of dollars, a hardship that could influence the decision to stay in the workforce longer in order to improve the return on their investment in education.

Chapter 2 addresses future labor force participation. The Social Security Administration (SSA) forecasts a continued increase in the participation rate of older workers in the labor force over the next 30 years but at a decreasing rate. After examining reports of revenue, outlays, and income gains, Burtless presents an alternative forecast. He assumes faster trends toward postponing retirement, with future participation rates staying above the rates reported by the Bureau of Labor Statistics for 2010, a year he establishes as a baseline for measurement. Looking at the individual components of the forecast, Burtless predicts a labor force participation rate among older Americans 10 percent higher than that forecast by the SSA. Because the jobs they would occupy likely would have been taken by younger workers, his theory suggests a lower participation rate among that segment of the workforce.

Chapter 3 looks at the budgetary impacts of postponing retirement. Forecasts are unanimous that postponing the retirement age will increase net government revenues from 2010 through 2040, especially among lower income earners. The ongoing shift from traditional defined-benefit retirement plans, in which risk is borne by the employer, to defined-contribution plans, in which risk is borne by the employee, also has been a factor in pushing back retirement. Other factors include the increase in the age at which a person may receive full Social Security benefits, the increase in workers' educational levels, and the decrease in the availability of health benefits for retirees. The situation may change in the future, however, as older workers either desire to or need to stay employed longer. Chapter 3 also addresses how to harness and convert the skill sets of older workers into enhanced productivity and national prosperity.

Chapter 4 focuses on policies designed to encourage workers to retire later in life. Currently, Social Security benefits are offered on a sliding scale to individuals between the ages of 62 and 70. One major incentive to waiting to claim benefits is that doing so will result in higher, inflation-protected annuity

income: delaying inflation-indexed Social Security benefits is equivalent to receiving a real annuity that exchanges forgone benefits today with higher benefits in the future. Aaron argues that, because life expectancy is tied to physical and mental activity, continuing to work until later in life is a health benefit in and of itself. In his view, a greater number of older, healthier individuals in the workforce would put less strain on the system; in fact, it has a double benefit, simultaneously increasing gross domestic product and tax revenues and reducing spending on health care benefits. For high earners, Aaron proposes a hybrid measure that would decrease the immediate benefit if pensions are claimed early but not reduce the overall benefit. He also discusses how social insurance programs could be created to incentivize workers to defer retirement; however, it remains unclear how to identify individuals who are capable and willing to continue to work from those who aren't. This is an area that requires additional research.

The final chapter looks into the future of the retirement decisions. The authors predict that by 2050 the minimum retirement age will be at least 70 and so argue for essential policy changes that defer retirement and encourage employers to retain older workers. The life expectancy of retirees hasn't decreased over the last 20 years, but the duration of retirement has increased because today's retirees are further from birth and death than were retirees 20 years earlier; therefore, it has become nearly impossible to finance a long-term retirement with a short-lived career. Later retirement would help shrink the deficit; the question that remains is whether employees who postpone their retirement do so out of love for their career or out of a need for income. If an individual enjoys his or her job, then postponing retirement is a great way to both remain healthy and add to monthly retirement income. But if one continues to work because of need, then there is clearly a problem with the retirement system and that problem needs to be addressed.

This short collection of essays is intended for a broad audience. The book explains in great detail the pros and cons of postponing retirement. It is a great read, especially for those who are considering working past the minimum retirement age but seeking additional information. I recommend it highly.

ABOUT THE REVIEWER

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